



PRIMER




Indiana State Teachers' Retirement Fund For active and retired members Spring Issue - March 2004

Volume XV

Number 1

INSIDE

this issue:

- 
- 1 A look at the history of TRF
 - 1 Legislative update
 - 2 Should you take the social security leveler
 - 2 Dr. Martin Luther King, Jr. service day project
 - 3 Newland's notes
 - 4 History (continued)
 - 5 Leaving the teaching profession in Indiana
 - 6 Top ten list of helpful hints
 - 7 Healthier living is just a click away
 - 7 History (continued)
 - 8 Simplifying forms
 - 8 TRF web news

A Look at the History of the Indiana Teachers' Retirement Fund

By: Steffanie Rhinesmith

In the last PRIMER, we were asked to understand and face the possibilities of an under-funded Teachers' Retirement Fund. To help you better understand your retirement benefits, this article and others to follow will explore the legislative history of the Fund, how it came to be and where it is today.

➤ 1915 – TRF created

- TRF governed by a five member Board of Trustees consisting of the Superintendent of Public Instruction, the Auditor, the Attorney General and two teacher members appointed by the Governor.
- Benefits included an annual retirement benefit of \$700 for teachers with 40 years of service and a disability benefit for teachers with at least 25 years of service.
- Benefit funded in two ways:
 1. Assessments on teachers' pay based on years of service and set out in law.
 2. Portion of school tuition tax determined by Board of Trustees.

➤ 1921 – TRF restructured

- The Board of Trustees changed to five members all appointed by the Governor, with at least two being members of the Fund - the same membership as today.
- Executive Director appointed to keep the books and records of the Fund.
- Assessments on teachers' pay and the contribution from the State now actuarially determined every two years with the benefit 43% funded by assessments on teacher pay, and 57% from a new TRF tax to begin in 1922.

- The Annuity Savings Account (ASA) was created within TRF to hold the contributions and earnings of each member, however there was not a separate benefit funded by the ASA as there is today.
- The disability benefit was made available for teachers with at least 10 years of service and early retirement benefit established for teachers with at least 25 years of service.

This basic structure remained in tact for the next 30 years, with various laws being passed to increase the annual benefit and decrease the years of service needed to retire with full benefits. In the late 1940's, it was determined that the State had been contributing less than the amount required to fully fund future benefits, which was outside the law. Consequently, the law was changed to allow the State to contribute only enough to fund the benefits being paid out during the year, **Unfunded liabilities = \$130 million** (continued on page 4)

Legislative Contact

If you have questions or comments regarding any legislation please call your Representative at (800) 232-9600 or Senator at (800) 382-9467 or visit their website at www.in.gov/legislative. TRF staff can not affect or answer questions regarding legislation.

Should you take the Social Security Leveler?

By: Shelley Horner

A frequently asked question of Pension Administrators is “Should I take the A-4 option?” The A-4 option is the social security equalizer, often referred to as the leveler. This option allows the member to receive higher monthly benefits until they reach the age of 62. When the member reaches the age of 62, their benefits will decrease to a pre-determined amount. While the age for full social security eligibility is increasing, your TRF benefits will reduce at age 62 regardless of your full eligibility age and whether or not you choose to apply for your reduced social security benefits.

For example: A member who is 55 years of age with 30 years of service and an average salary of \$50,000 would ordinarily receive a TRF monthly pension, under the A-1 straight life option, of \$1,375. If this same member elected the A4 option they would get \$1,905 per month from TRF. The \$1905 per month is based on an estimate from the Social Security Administration of \$1,000 per month at age 62. Each TRF member will need to supply The Fund a personal estimate from the Social Security Administration before we can make this calculation. At the age of 62, the retirement benefit would be reduced by the amount of the early retirement benefit that they are expected to receive from Social Security; in this example the benefit would reduce to \$905 monthly from TRF. This decrease will occur whether or not the retiree chooses to apply for the reduced early retirement Social Security benefit. The idea is that at age 62, the combination of Social Security benefits and TRF benefits would add up to the original \$1,905. For those members who take an early, reduced retirement benefit from TRF and choose the A-4 option, their TRF benefit could be reduced to \$0 (zero) at age 62.

Deciding whether the A-4 option is right for someone depends on the age at retirement, life expectancy, Social Security estimates and difference in the amount of benefits. It is strongly encouraged that any member considering this option calculate an estimate of benefits, including the A-4 before and after age 62 amounts, and review them carefully. **Once your properly completed retirement application is received by TRF, your options cannot be changed.**

Below is the table from the Social Security Administration, which determines your normal (full) retirement age:

<u>YEAR OF BIRTH</u>	<u>AGE OF FULL SOCIAL SECURITY ELIGIBILITY</u>
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943—1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Dr. Martin Luther King, Jr. service day project

By: Maricar Gonzales

The Indiana Civil Rights Commission encouraged state agencies to participate in the 2004 Dr. Martin Luther King, Jr. service day project. Because of TRF's commitment to supporting the educators who guide our children, our agency chose to lend support to the Indiana School for the Blind.

The school had the opportunity to submit a “wish list” for items they would like to purchase for students but were unable to due to budgetary constraints. TRF surpassed their goal for purchasing the items.

The project was rewarding and we reflected on the experience with admiration and a renewed respect regarding what people with disabilities are able to accomplish in their daily lives.



NEWLAND'S notes



Bob Newland has been with the Fund for 18 years. He began as the Investment Coordinator and is currently the Deputy Director for Investments. He has an undergraduate degree in Political Science from Indiana University, and an MPA with a Finance concentration from American University. He also has certifications in financial asset management as well as employee benefits.

As a state government sponsored pension fund, the Indiana State Teachers' Retirement Fund (TRF) is generally exempt from most federal pension legislation, such as the Employee Retirement Income Security Act (ERISA). Generally, the Indiana legislature provides the legal guidelines for the operation of TRF. This sometimes leads to confusion among our members. This is especially true when it comes to the Annuity Savings Account (ASA). The ASA is similar to a mutual fund or a 401(k), or 403(b); however, while these programs often have federal regulations governing them (for example, by the Securities and Exchange Commission or the Internal Revenue Service code), the ASA gets its primary guidance from the Indiana State Legislature.

As you are aware, the ASA has 4 market valued programs (S&P500 Index, Small Cap, International, and Bond), as well as a stable value program (Guaranteed). Functioning of the ASA is addressed in Indiana Code 5-10.2 et. al. and there are a few things that I would like to point out. First, many members wonder why they can't change their option more frequently than once a quarter. IC 5-10.2-2-3(e) stipulates that when a member changes his/her allocation, the change will be made by TRF on "...the first day of the next calendar quarter that begins at least thirty (30) days after the selection is received...". "This date is the **effective date of the member's selection.**" This means that we need the completed *Request to Allocate Annuity Savings Account* form in our office no later than the last day of the second month of a quarter. The selection will then go into effect on the first day of the next quarter. For the current quarter this means that we should have the form in our office no later than February 29. The change would then go into effect on April 1.

Subsection (f) of this citation goes on to say that when a member transfers from one of the market valued programs to any other program, the value of the account will be, "...as of the day before the **effective date of the member's selection.**" Additionally, when a member in a market valued program, "...retires, becomes disabled, dies, or suspends membership and withdraws from the fund", the account, "...shall be the market value of the member's investment as of the last day of the quarter preceding the member's distribution." This means that if you retire on May 1, for example, the account will be valued as of March 31; or, if you withdraw on September 15, the account will be valued as of June 30.

The Guaranteed program is a little different. Because the earnings rate is already known, it can be prorated up to the point of retirement or withdrawal. Subsection (g) states in part that valuation will be as of the last day of the quarter preceding the member's retirement or withdrawal. Interest from that point to the retirement or withdrawal date would then be added to that sum. If you withdrew from the Fund on March 1, for example, the account would be valued as of December 31, and then interest would be added up to March 1.

I'll continue with more in the next issue.

The *Primer* is published by the Fund to update members on Fund news and to give general information about Fund benefits. Specific information is available in the Active Member's Handbook, the Retiring Member's Guidebook or by contacting the office.

Director: William E. Christopher, Ph.D.

Newsletter Designer: Amy Maynard

Newsletter Printer: Personix – Another Fiserv Resource

History (continued from page 1)

➤ **1955 – Supplemental Retirement Benefit System created to supplement the new Social Security Law created by Congress**

- New system would continue to be administered by the separate Boards of TRF and PERF.
- Required employee contributions of 4% to be deposited in the ASA (contribution rate was decreased to 3% in 1957).
- Interest earned in the ASA accounts set by Board of Trustees but couldn't exceed 3% compounded annually.
- Members were eligible for normal retirement at age 65 with 10 years of service and eligible for early retirement at age 50 with 15 years of service.
- The normal retirement benefit consisted of two parts:
 1. A pension provided by contributions from the employer; and
 2. An annuity provided by employee contributions plus earnings (ASA account).
- Provided for a number of different pension options and a formula for determining the early retirement benefit, as well as maintained a disability benefit for members with more than 10 years of service.
- Required appropriations by the State to be the sum of:
 1. Normal contribution (amount of future benefit earned each year by active teachers)
 2. At least the amount required to prevent an increase in the unfunded liability (future benefits earned by active teachers but not yet paid for)
 3. Amount estimated to pay retirement benefits of those already retired.

Once again, the intent of the State was to fully fund the Teachers' Retirement Fund.

Unfunded liability approximately \$500 million

- **1977 - Pension benefit formula used today was set by law** — the average annual compensation of your five highest years multiplied by 1.1% multiplied by years of service.
- **1985 - General Assembly allowed the employer the option of contributing the required 3% member contribution for the member.** Today over 95% of school corporations make this contribution for their employees.
 - Required the Board to establish one or more alternative investment programs in addition to the Guaranteed fund for the Annuity Savings Accounts. Board made available a Bond Fund and a Money Market Fund.
- **1989 – Age at which teachers could receive a normal retirement benefit was reduced.**
 - Members could retire with full benefits at age 60 with 15 years of service or as early as age 55 with age and service equal to or greater than 85 (Rule of 85).

Unfunded liabilities = \$4.5 billion

Although members of TRF substantially benefited from the changes to the retirement plan law in the late 80's, the State continued to appropriate to TRF only the amount necessary to pay benefits for retired teachers. The State was not pre-funding the benefits being earned every year by active teachers, or providing funding for the increase in benefits. At the same time, the Indiana Fiscal Policy Institute, a non-profit organization dedicated to conducting independent nonpartisan research and analysis on the fiscal condition of the state, began a series of reports and articles on the consequences of this pay-as-you-go financing to the State's budget. The three main consequences sighted were:

1. Teacher retirement benefits will be paid by generations of taxpayers no longer receiving the specific services of those teachers.
2. The state gives up the additional "contribution" provided by earnings on investments in the fund since there are no contributions to invest.
3. Pension contributions will escalate rapidly and indefinitely as more teachers retire, versus a steady level of contributions granted in a pre-funded system.

The Governor and General Assembly noticed and began to take action.

➤ **1989 - \$30 million annually dedicated to TRF from new Lottery revenues**

➤ **1993 - "New Plan" created**

- Members employed prior to July 1, 1995 continue to be members of the "Pre-1996 Plan" with benefits paid from the state's general fund.
- Members hired, transferred to another school district or rehired after June 30, 1995 would become members of the "1996 Plan." The 1996 Plan would be fully funded by employer contributions from the school corporations. Since school corporations are responsible for hiring, benefit and salary increase decisions, they would also be responsible for funding the retirement benefits that are affected by those decisions. (continued on page 7)

Leaving the Teaching Profession in Indiana?

By: Shelley Horner

At some point in your career, you will make a decision to retire from teaching, change professions, or relocate and teach in another state. What should you do with your account at TRF when this happens? The decision you make could have current tax implications and will effect your retirement income in the future.

Members with less than 10 years of teaching in Indiana have the following choices:

- Withdraw the full amount of your annuity savings account. If you elect to receive these funds, TRF will withhold 20% federal income tax. You may also be subject to an additional 10% early distribution penalty when you file your IRS tax return.
- Rollover part or all of your annuity savings account to an IRA or other type of tax-deferred retirement plan that will accept the contributions. Any portion that is rolled over will continue to be tax-deferred until such time in the future as you actually receive the funds.
- Leave the funds at TRF and continue to receive gains/losses, with the opportunity to change your investment options, for up to 10 years, at which time interest accruals cease. You should then withdraw your funds.

You should obtain a Voluntary Withdrawal Application from our web site. Instructions for completion of the form are included.

If you are vested (10 or more years of teaching in Indiana), you have the following choices:

- If you have not yet reached retirement eligibility, when combining age and service, you may withdraw the full amount of your annuity savings account. If you elect to receive these funds, TRF will withhold 20% federal income tax. You may also be subject to an additional 10% early distribution penalty when you file your IRS tax return.
- If you have not yet reached retirement eligibility, when combining age and service, you may rollover part or all of your annuity savings account to an IRA or other type of tax-deferred retirement plan that will accept the contributions. Any portion that is rolled over will continue to be tax-deferred until such time in the future as you actually receive the funds.
- Leave your annuity savings account invested with TRF until you meet retirement eligibility. You will continue to receive quarterly gains/losses and statements, and have the opportunity to change your investment options. Retirement eligibility occurs at the following points:
 - ◆ Reduced benefits at age 50 with at least 15 years of service.
 - ◆ Full benefits at age 60 with at least 15 years of service.
 - ◆ Full benefits at age 65 with at least 10 years of service.
 - ◆ Full benefits after age 55 when age and service combined equal 85.
- If you are at full benefit eligibility and no longer teaching in Indiana, delaying the onset of benefits will not increase the amount of your monthly payment.
- If you are no longer teaching in Indiana, it is to your advantage to apply for retirement upon becoming age and service credit eligible. There is also a statutory requirement that retroactive benefits in excess of six (6) months may not be paid.
- **It is highly recommended that at age 70 1/2 you take retirement benefits, otherwise Federal tax consequences and/or penalties may apply.**

You should obtain an Application for Retirement Benefits from our web site. Instructions for completion of the form are included.

Top Ten Helpful Hints

By: Lynette Farrell

While Members' Service Center (MSC) staff is charged with the responsibility of receiving all in-bound calls for the Teachers' Retirement Fund, they spend a larger portion of time processing service credits, retirement and withdrawal applications, verifying service and sorting daily mail. In 2003, approximately 7000 withdrawal and retirement applications were submitted. Of those 7000, 30% were returned to members because the information supplied was insufficient. To ensure your applications and service requests are processed in a timely fashion, the following is a "[Top Ten List](#)" of helpful hints:

1. [A-4 Option](#)

If you select the A-4 option, you must provide us with a copy of your predicted Social Security benefits entitlement, at age 62. If you choose the Social Security benefits leveler, you cannot change that option at a later date. Your pension benefits will be reduced when you reach the first full month that follows your 62nd birthday.

2. [Checklist](#)

If your retirement application is returned with a checklist attached, corrections should only be made to the highlighted items and/or boxes that are checked. Also, please be sure to return the entire application once you have made the requested changes.

3. [Direct Deposit](#)

Many applications are rejected for final processing because the direct deposit page has been removed. We cannot process the application if pages are missing. **All new retirees are required to take direct deposit.**

4. [Information Change](#)

Please be advised, employers do not update your information with us. It is your responsibility to notify our office of any changes regarding personal information, beneficiaries, address changes, allocation changes, etc. You must file the necessary paperwork in order to make changes to your account.

5. [Options](#)

After retirement, no changes may be made to the options you selected. For example, if you divorce your designated co-survivor, you may not list a new co-survivor unless the current designee is deceased.

6. [Part I and Part II](#)

Members need to complete and sign Part I of the retirement application and forward it to our office. Employers must complete Part II, however it does **not** need to be completed by the school before you submit Part I.

7. [Power of Attorney](#)

If you designate a Power of Attorney (POA), please mail a copy of the POA papers. If your direct deposit is a trust, we will also need a copy of the trust agreement.

8. [TRF Numbers](#)

TRF numbers are located on **all** quarterly statements and monthly benefit checks. The number will appear above your name and address.

9. [Taxes](#)

Indiana State Withholding Tax Forms must indicate a dollar amount rather than a percentage.

10. [Service Credit](#)

If you want to purchase service credit, please be sure your calculations are correct. For your convenience, a "purchase service credit calculator" is located on our website. Also, all mandatory forms must be submitted with the request. Forms might include board minutes, current contracts, a copy of your DD214 for military service, transcripts and/or leave request forms.

Please Note: If you make a mistake on a form, please be sure your initials appear where the error occurred. In addition, you will need to clearly identify your new selection. Also, your Initials should appear in the lower right-hand corner of pages 1-6 of the retirement application. **Most importantly, remember to sign all forms when necessary.**

We are always interested in how we may better serve you. Any comments, suggestions or ideas you have may be forwarded to us via telephone, email or written correspondence. We will continue to explore initiatives to enhance service delivery systems.

Healthier Living is just a click away...

By: Sue Irons & Maricar Gonzales



[MyHealth@Anthem](#) gives you access to daily health news, plus a searchable library of more than 20,000 articles and news stories. The articles cover a wide range of health and wellness topics and are arranged in a user-friendly format. The contents are developed in cooperation with leading health authorities and resources. Independent physicians and universities review the award-winning site across the country.

Setting up your own health page takes you to the heart of the matter with information personalized for you. Get weekly updates via email with information on the topic(s) you choose. This email newsletter is packed with information just for you.

The self-care centers are filled with practical advice, interviews, quizzes and the latest news. You can participate in polls on health and wellness topics and view results. Also, find personalized health tracking tools, calculators, calendars and diaries.

To visit [MyHealth@Anthem](#), log on to www.anthem.com click on [Visit MyHealth@Anthem for personalized health information on topics of interest to you.](#)

Obesity is the number one health problem in the United States and it increases the risk of heart disease, type II diabetes and strokes. You can find your body mass index (BMI) at www.home.anthemhealth.com/topic.bmicalc. Your BMI value is more useful for predicting your health risks than your weight alone.

What are you waiting for? Log on and get healthy at www.anthem.com

History (continued from page 4)

➤ 1995 - Pension Stabilization Fund (PSF) created

- Designed to pre-fund the pension payments for members of the Pre-1996 Plan.
- Intent of General Assembly was to stabilize the growth in state pension payments to 6% per year, by supplementing the difference with payments from the PSF beginning in fiscal year 2006.
- Began with \$439.7 million from existing employer reserves of TRF.
- Since 1995, has received \$657.5 million in state contributions in addition to the \$30 million annual contribution from Lottery and Gaming.
- PSF balance of \$1.86 billion on June 30, 2003.

➤ 1996 - Citizens of Indiana voted to amend the Indiana Constitution to allow PERF and TRF to invest their funds in equities

- Allowed Board to diversify the investments of The Fund, reducing the overall risk of loss while increasing the rate of return.
- Allowed Board to add stock investment options to the ASA, making higher returns possible for members as well.

Unfunded liabilities = \$7.1 billion

The changes implemented by the Governor and General Assembly throughout the 1990's substantially improved the fiscal health of the TRF and helped assure teachers that the benefits they've earned will be paid. In 2000, members were allowed to make voluntary after-tax contributions to their ASA accounts up to 10% of pay. In 2003, the IRS ruled that these contributions could be pre-tax if certain stipulations were met. However, subsequent decisions by the state have led to questions about the fiscal health TRF again.

➤ 2003 - \$30 million in annual lottery money redirected from the PSF to the 1996 Plan for fiscal years 2004 and 2005, reducing the contributions required from each school corporation

- Pension payments estimated at \$487.6 million and \$517.6 million for fiscal years 2004 and 2005 under-appropriated by state in amount of \$190 million per year, with the difference to be made up from the PSF.

Unfunded liabilities = \$8.2 billion

Although this has been a lengthy history lesson, we hope it has been helpful in understanding your fund. In the next issue we will discuss in greater detail the financial impact of the many changes implemented over the last 10 years. One important fact to consider until then - pension payments from the state's general fund will continue to grow at a rate averaging 7.5% over the next decade, reaching \$1 billion by 2015 and peaking above \$1.4 billion in the late 2020's before starting to decline. □

Contacting The Fund

Direct: (317) 232-3860
Toll Free: (888) 286-3544

Investments: (317) 232-3868

Fax Number: (317) 232-3882

TDD/TTY: (317) 233-3306

Director's Office: (317) 232-3866

Website: www.in.gov/trf

Email: trf@trf.in.gov

Indiana State Teachers' Retirement Fund
150 West Market Street, Suite 300
Indianapolis, Indiana 46204-2809

Presorted
Standard
U.S. Postage Paid
Permit No. 8892
Indianapolis, IN 46204



Joseph E. Kernan, Governor

William E. Christopher, Ph.D.,
Executive Director

Board of Trustees
Matthew Murphy, III
Katherine Humphreys
James M. Bennett
Garrett L. Harbron
Douglas M. Kinser

Simplifying Forms

For security purposes, we are currently in the process of revising all TRF forms to exclude members' social security numbers or **only** require the last four digits of the social security number, **when possible**. Please make note of your TRF number for all future inquiries with our office.

Should you not be able to locate your TRF Number you may obtain it by one of the following methods:

For Active Members

- ~ Contact your school payroll administrator
- ~ Submit a request in writing to our office

For Retired Members

- ~ It will be on your monthly check
- ~ Submit a request in writing to our office

TRF WEB NEWS

By: Stacey Gibbens

Past quarterly statements are now available on our website. Whether you've misplaced one or have simply opted out of receiving paper copies, you can retrieve your past quarterly statements from March 31, 2003 forward from the website. To view, please visit https://secure.in.gov/serv/trf_quarterlystatement by clicking on the "Quarterly Statement" link on the left sidebar of TRF's website and enter the required account information.

Get personalized driving directions to our office in Indianapolis! Have you made an appointment to come see us but don't know how to get here? Use the link to the MapQuest site to create personalized driving directions from your exact location. Click "About TRF" at the top of the website, then "Map to Office and Driving Directions," and then the "Detailed Map" link.

For your Protection... online use of social security numbers is now more limited. In order to receive an online Quarterly Statement or Estimate of Retirement Benefits, **only** the last four digits of your social security number are required along with your TRF number and date of birth. Additionally, the "Schedule an Appointment" and "Change of Address" web pages (accessible from the Quarterly Statement portion of the website) no longer require your social security number and birth date, **only** your TRF number is needed. These items have been removed to protect against identity theft.